MarketWatch | Refined Products

Monday, October 17, 2022

Market Commentary

Recap: Oil prices plummeted on Friday as global recession fears and weak oil demand, especially in China, outweighed support from a large cut to the OPEC+ supply target. China, the world's largest crude oil importer, has been fighting COVID flare-ups after a week-long holiday. The country's infection tally is small by global standards, but it adheres to a zero-COVID policy that is weighing heavily on economic activity and thus oil demand. Prices also fell as the U.S. dollar index rose along with the number of active oil rigs. A stronger dollar reduces demand for oil by making fuel more expensive for buyers using other currencies. The market is still digesting a decision last week from the Organization of the Petroleum Exporting Countries and allies, together known as OPEC+, when they announced a 2 million barrel per day (bpd) cut to oil production targets. Underproduction among the group means this will probably translate to a 1 million bpd cut, the IEA estimates. WTI for November delivery lost $3.50 per barrel, or 3.93% to settle at $85.61, for a weekly loss of $7.03 or 7.59%. December Brent finished the session down $2.94, or 3.11%, to settle at $91.63, down 6.42% to $91.63 on the week. RBOB Gasoline for November delivery fell 7.25 cents per gallon, or 2.68%, for a weekly loss of 3.79% to $2.6309. ULSD for November delivery lost 3.85 cents per gallon, or 0.96% to $3.9802 this week, settling 11.46 cents or 2.80% on the session.

Technical Analysis: Despite the 10-day moving average crossing above the 50-day moving average, we did not see the expected technical bounce and hold that would be anticipated on such a move. At this point, it looks like the support provided by OPEC+ production cuts has come to an end. Traders focus on recession risks and expect that higher interest rates will hurt demand for oil. China's coronavirus policy serves as another bearish catalyst for the oil markets. Support is seen at $85, $81.10 and $80. A break below $81.10 puts WTI right back in the downward channel it broke out of two weeks ago. On the upside, resistance is set between the range of $87.53 and $88.15,

Fundamental News: IIR Energy said U.S. oil refiners are expected to shut in about 1.8 million bpd of capacity in the week ending October 14th, cutting available refining capacity by 138,000 bpd. Offline capacity is expected to fall to about 1.6 million bpd in the week ending October 21st and further decline to 1.1 million bpd the following week.

U.S. energy firms this week added oil and natural gas rigs for the fourth time in five weeks. Baker Hughes reported that the oil and gas rig count increased by seven to 769 in the week ending October 14th, returning to its highest since March 2020 after declining for the past couple of months. U.S. oil rigs increased by eight to 610 this week, their highest since March 2020, while gas rigs fell one to 157, their lowest since July.

Energy Aspects analysts including Amrita Sen said oil output from shale basins is at risk of peaking in just two years as drillers combat increasing costs. According to Energy Aspects, high inflation is prompting at least five producers to consider the unusual step of cutting rigs at the start of the year, while none plan to increase activity substantially. It said "As much as the Biden administration would like for domestic oil producers to ride to the rescue in the short term, there's little chance the administration can do anything to reverse this activity slowdown." It said forward prices for US crude, currently trading around $78/barrel for next year, would need to increase above $80 for producers to ramp up.

Traders are diverting Europe-bound tankers carrying diesel to the U.S. East Coast as the two regions battle for supplies amid an acute shortage and soaring prices. According to traders and Refinitiv ship tracking data, at least two tankers carrying 90,000 tons of diesel and jet fuel are heading from Europe to the U.S. East Coast.

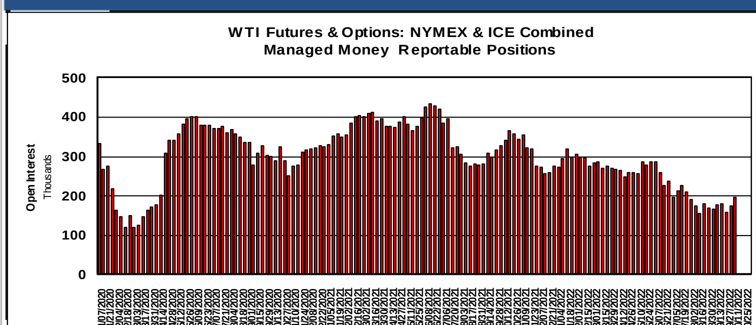
Early Market Call - as of 8:40 AM EDT
WTI - November $85.91, up 30 cents
RBOB - November $2.6437, up 1.28 cents
HO - November $4.0205, up 4.03 cents

All NYMEX | Prior Settlements

Month	ULSD (HO) Close	Prior Settle Change	Change In One Week
Nov-22	3.9802	-0.1146	-0.0385
Dec-22	3.6026	-0.105	-0.1834
Jan-23	3.4826	-0.0966	-0.191
Feb-23	3.3883	-0.0961	-0.1812
Mar-23	3.2923	-0.0928	-0.1693
Apr-23	3.1877	-0.09	-0.16
May-23	3.103	-0.0889	-0.1484
Jun-23	3.0338	-0.0885	-0.1373
Jul-23	2.9953	-0.0877	-0.1272
Aug-23	2.9681	-0.0861	-0.1205
Sep-23	2.9461	-0.0841	-0.1158
Oct-23	2.9252	-0.0815	-0.1094
Nov-23	2.9037	-0.0786	-0.1025
Dec-23	2.8823	-0.0747	-0.0956
Jan-24	2.8583	-0.0717	-0.0893
Feb-24	2.8361	-0.0696	-0.0911
Mar-24	2.8079	-0.0709	-0.0955
Sprague HeatCurve October 2023-April 2024			$2.8530

	Close	Change
Crude - WTI	$84.6500	-$3.3000
Crude - Brent	$91.6300	-$2.9400
Natural Gas	$6.4530	-$0.2880
Gasoline	$2.6309	-$0.0725

Nov Brent-WTI Spread $6.98



Commitment of Traders Report for the Week Ending October 11, 2022